



# **Board of Water and Light - City of Lansing, Michigan**

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**Financial Report  
with Additional Information  
June 30, 2008**

# **Board of Water and Light - City of Lansing, Michigan**

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## Independent Auditor's Report

To the Honorable Mayor, Members of  
the City Council, and Commissioners of  
the Board of Water and Light  
City of Lansing, Michigan

We have audited the accompanying financial statements of the Enterprise Fund and Pension Fiduciary Funds of the Board of Water and Light - City of Lansing, Michigan (the BWL) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Board of Water and Light's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the BWL's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund and Pension Fiduciary Funds of the BWL as of June 30, 2008 and 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the BWL's basic financial statements. The additional information on pages 43 through 50 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 11, 2008

# **Board of Water and Light - City of Lansing, Michigan**

## **Management's Discussion and Analysis**

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This section explains the general financial condition and results of operations for the Lansing Board of Water and Light (the BWL). The BWL includes the consolidated operations of the water, electric, steam, and chilled water utilities. The notes to financial statements following this section are essential reading for a complete understanding of the financial and operational results for fiscal year 2008.

### **Overview of Business**

The BWL owns and operates an electric system, which generates, purchases, and distributes electric power and energy, and provides electric service to over 96,000 residential, commercial, and industrial customers in the greater Lansing area. The BWL generated 75 percent of its retail and wholesale sales from existing generation assets and purchased additional electric generation through its membership in the Michigan Public Power Agency, which includes the BWL's partial ownership of Detroit Edison's Belle River Plant.

The BWL owns and operates water wells, a raw water transmission system, water conditioning facilities, and an extensive water distribution system serving potable water to over 55,000 residential, commercial, and industrial customers in the greater Lansing area.

The BWL owns and operates steam generation boilers, a steam transmission and distribution system serving 242 customers, and a chilled water facility and distribution piping system serving 14 customers in the City of Lansing.

### **Capital Expenditures**

Capital expenditures are driven by the need to expand or maintain the generation, transmission, and distribution systems of the BWL to meet growing customer utility needs and to maintain a satisfactory level of service reliability. The BWL invests essentially all revenues not paid out for operations and maintenance expense, nonoperating expenses, or debt principal back into capital improvements for the water, electric, and steam systems. Gross capital expenditures were \$45.7 million in fiscal years 2008 and 2007.

The BWL generally pays the major portion of the cost of its capital improvements from internally generated funds and a lesser portion from the proceeds of revenue bonds that are issued from time to time.

Detailed financial information for the separate utilities of water, electric, steam, and chilled water can be found in the additional information section beginning on page 43.

# Board of Water and Light - City of Lansing, Michigan

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information (dollars in millions)

	June 30			% Change
	2008	2007	2006	2007 to 2008
<b>Assets</b>				
Utility plant	\$ 519.8	\$ 512.0	\$ 511.8	1.5
Other assets	262.9	218.5	199.5	20.3
Total assets	782.7	730.5	711.3	7.1
<b>Liabilities</b>				
Long-term liabilities	216.4	184.2	193.8	17.5
Other liabilities	46.6	40.4	35.1	15.3
Total liabilities	263.0	224.6	228.9	17.1
<b>Net Assets</b>				
Invested in capital assets	372.5	359.8	351.0	3.5
Restricted for debt service	37.7	33.5	32.1	12.5
Unrestricted	109.5	112.6	99.3	(2.8)
Total net assets	<u>\$ 519.7</u>	<u>\$ 505.9</u>	<u>\$ 482.4</u>	2.7

Other assets increased by \$44.4 million. This increase was created primarily by a \$41.5 million increase in noncurrent restricted assets which is due to a new \$40 million revenue bond. In addition, deferred environmental remediation costs increased by \$3.8 million.

Long-term liabilities increased by \$32.2 million due to the additional long-term debt of \$40.0 million primarily related to the issuance of new revenue bonds.

Other liabilities increased by \$6.2 million due in part to an increase in accounts payable of \$5.1 million.

Invested in capital assets increased \$12.7 million due to a \$7 million increase in capital assets and an increase of \$39 million in unspent bond proceeds that were offset by an increase of \$34 million in long-term debt.

Unrestricted equity decreased \$3.1 million due primarily to fiscal year 2008 net income (change in net assets) of \$13.8 million less \$ 9.6 million in net assets which shifted to invested in capital assets as a result of the reduction of long-term debt.

# Board of Water and Light - City of Lansing, Michigan

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information (dollars in millions) (Continued)

	June 30			% Change
	2008	2007	2006	2007 to 2008
<b>Results of Operations</b>				
Operating revenue	\$ 275.7	\$ 258.9	\$ 233.6	6.5
Operating expenses	255.9	235.0	236.3	8.9
Nonoperating (expense) income - Net	(6.1)	(0.4)	9.4	1,425.0
<b>Change in Net Assets</b>	<u>\$ 13.7</u>	<u>\$ 23.5</u>	<u>\$ 6.7</u>	(41.7)

Operating revenues increased \$16.8 million, due primarily to an \$18.1 million increase in electric sales largely as a result of increase of wholesale sales and a \$2.3 million reduction of steam revenue, which is due in part to a \$1.0 million reduction in steam revenue previously recognized in fiscal year 2006. Revenues increased in part due to rate increases of 7 percent electric, 7 percent water, and 6 percent steam that were effective on March 1, 2008.

Operating expenses increased \$20.9 million, due primarily to a \$15.9 million increase in fuel costs and a \$1.8 million increase in depreciation expense.

Nonoperating income (expense) decreased by \$5.7 million, due primarily to a \$4.2 million reduction in payments from MPPA during fiscal year 2008. Fiscal year 2008 investment income increased by \$.9 million to \$6.2 million compared to \$5.3 million in fiscal year 2007.

The decrease in the change in net assets is due primarily to the decrease in nonoperating revenues and an increase in fuel costs.

**Budget** - The BWL commissioners approved a \$247.9 million operating expense budget for fiscal year 2008. Actual expenses were \$255.9 million or 3.2 percent more than budget. The overage was mainly due to higher than expected costs of fuel and purchased power. The net capital improvement budget was \$50.5 million for fiscal year 2008; actual net capital expenditures were \$41.9 million or 83 percent of the capital budget.

**Financing Activities** - During fiscal year 2008, revenue bonds of \$40,000,000 were issued to finance new construction activities for the water utility.

On August 12, 2008 the BWL Board of Commissioners approved a bond resolution that will provide for the refinancing of 1999B junior lien revenue bonds. Future market conditions will determine the timing of the refinancing.

# **Board of Water and Light - City of Lansing, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **Other Significant Items**

In June 2008, the BWL entered into a settlement agreement with General Motors Corporation (GM) on the fees that were billed due to a termination notice on a steam service agreement. Under this agreement, the BWL is to receive \$12.8 million from GM in September 2009 to settle all outstanding issues as a result of the termination of service at Plant #1 and the Plant #6 complex. The BWL has impaired assets due to the plant closings that will result in a \$12.1 million reduction to fixed assets. The BWL is utilizing FAS 71 treatment on both the termination fees and impaired asset to allow for these transactions to be able to be matched in the fiscal year in which they are recognized and be reflected in future rates simultaneously.

On June 8 and 9, major storms hit the Lansing area. Following the storms, the governor of Michigan officially declared a state of emergency for Lansing and surrounding areas. Due in part to these events, fiscal year 2008 maintenance expenses were higher than anticipated. The BWL is currently working with the Federal Emergency Management Agency (FEMA) to recover eligible expenses from the storms.

# Board of Water and Light - City of Lansing, Michigan

	June 30	
	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Restricted cash and cash equivalents (Notes 4 and 11)	\$ 35,100,621	\$ 32,749,480
Cash and cash equivalents (Notes 4 and 11)	42,726,407	47,466,174
Investments (Notes 1 and 11)	25,341,766	23,410,088
Accounts receivable - Net (Note 1)	25,321,906	28,383,630
Estimated unbilled accounts receivable (Note 1)	12,412,509	10,953,007
Inventories (Note 1)	19,556,343	17,824,937
Other	1,085,989	912,727
Total current assets	161,545,541	161,700,043
<b>Other Assets</b>		
Deferred energy cost (Note 6)	(349,108)	(1,091,456)
Deferred amortization of central utilities complex (Note 6)	4,761,600	4,389,666
Deferred environmental remediation (Note 6)	15,711,800	11,867,400
Deferred asset impairment (Note 6)	12,157,037	12,157,037
GM steam service termination fees receivable (Note 6)	12,157,037	16,422,491
Other	3,248,865	881,347
Total other assets	47,687,231	44,626,485
<b>Noncurrent Restricted Assets</b> (Notes 4 and 11)	53,680,950	12,222,082
<b>Utility Plant</b> (Note 1)		
Water	213,799,616	199,936,986
Electric	592,813,733	582,946,549
Steam	55,744,957	53,203,407
Chilled water	36,285,006	36,199,211
Common facilities	62,885,529	62,695,394
Central Utilities Complex	76,079,000	76,079,000
Total	1,037,607,841	1,011,060,547
Less accumulated depreciation	545,072,378	515,353,911
Net	492,535,463	495,706,636
Construction in progress (Note 3)	27,261,463	16,334,266
Total utility plant	519,796,926	512,040,902
Total assets	<b>\$ 782,710,648</b>	<b>\$ 730,589,512</b>



## Statement of Net Assets

	June 30	
	2008	2007
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 23,745,550	\$ 18,682,368
Current portion of long-term debt (Note 5)	10,022,070	9,589,954
Accrued payroll and related taxes	2,298,066	1,904,070
Customer deposits	2,821,212	2,625,590
Accrued compensated absences (Note 1)	3,343,856	3,356,207
Accrued interest	4,394,165	4,279,073
Total current liabilities	46,624,919	40,437,262
<b>Compensated Absences</b> - Less current portion (Note 1)	7,192,732	6,943,320
<b>Other Long-term Liabilities</b>		
Workers' compensation	1,066,119	1,057,656
Environmental remediation liability (Note 9)	14,652,740	12,770,358
Deferred steam service termination fees (Note 6)	12,677,037	16,942,491
Arbitrage rebate requirement (Notes 4 and 12)	136,666	28,218
Other	2,538,419	2,019,067
Total other long-term liabilities	31,070,981	32,817,790
<b>Long-term Debt</b> - Less current portion (Note 5)	178,130,045	144,442,129
Total liabilities	263,018,677	224,640,501
<b>Net Assets</b>		
Invested in capital assets	372,527,509	359,816,633
Restricted for debt service (Note 4)	37,740,137	33,545,576
Unrestricted	109,424,325	112,586,802
Total net assets	519,691,971	505,949,011
Total liabilities and net assets	<b><u>\$ 782,710,648</u></b>	<b><u>\$ 730,589,512</u></b>

# Board of Water and Light - City of Lansing, Michigan

## Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2008	2007
<b>Operating Revenues (Note 1)</b>		
Water	\$ 26,730,394	\$ 26,008,356
Electric	235,579,866	217,042,128
Steam	8,696,792	11,056,468
Chilled water	4,720,885	4,796,149
Total operating revenues	275,727,937	258,903,101
<b>Operating Expenses</b>		
Production:		
Fuel, purchased power, and other operating expenses	139,215,552	123,289,560
Maintenance	22,969,955	22,361,620
Transmission and distribution:		
Operating expenses	7,896,861	6,195,761
Maintenance	8,422,127	7,493,000
Administrative and general	48,204,627	48,340,486
Depreciation and impairment (Note 1)	29,160,354	27,355,440
Total operating expenses	255,869,476	235,035,867
<b>Operating Income</b>	19,858,461	23,867,234
<b>Nonoperating Income (Expenses)</b>		
Investment income	6,160,524	5,310,787
Other income	2,402,122	8,134,821
System capacity fee	9,325,252	9,278,623
Bonded debt interest expense	(8,401,608)	(8,661,208)
Amortization - Central Utilities Complex	(4,700,000)	(4,375,000)
Payment in lieu of taxes (Note 7)	(10,747,503)	(9,910,616)
Other interest expense	(154,288)	(126,238)
Total nonoperating expenses - Net	(6,115,501)	(348,831)
<b>Net Income (Changes in Net Assets)</b>	13,742,960	23,518,403
<b>Net Assets - Beginning of year</b>	505,949,011	482,430,608
<b>Net Assets - End of year</b>	<u>\$ 519,691,971</u>	<u>\$ 505,949,011</u>

# Board of Water and Light - City of Lansing, Michigan

## Statement of Cash Flows

	Year Ended June 30	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Cash from customers:		
Water	\$ 27,447,089	\$ 27,998,191
Electric	233,621,557	221,928,826
Steam	8,583,475	8,671,330
Chilled water	4,752,256	4,787,394
Total cash from customers	274,404,377	263,385,741
Cash paid to suppliers:		
Suppliers of coal, freight, and purchased power	(107,876,011)	(100,495,783)
Other suppliers	(69,668,264)	(59,026,304)
Total cash paid to suppliers	(177,544,275)	(159,522,087)
Cash paid to employees	(47,214,979)	(43,273,764)
Payment in lieu of taxes (Note 7)	(10,747,503)	(9,910,616)
Cash from customer deposits	195,622	320,782
Interest on customer deposits	(154,288)	(126,238)
Net cash provided by operating activities	38,938,954	50,873,818
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from new borrowings	43,748,820	1,424,243
Planned, bonded, and annual construction	(41,988,312)	(32,686,009)
Principal payments on debt	(9,520,340)	(9,878,983)
System capacity fees	9,325,252	9,278,623
Interest on debt	(8,286,516)	(8,856,000)
Net cash used in capital and related financing activities	(6,721,096)	(40,718,126)
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from the sale of emissions allowances	-	6,380,524
Proceeds from the Belle River Project and other	2,623,538	5,004,556
Net cash provided by noncapital financing activities	2,623,538	11,385,080
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale and maturity of investments	11,058,659	33,058,315
Interest received	6,385,651	5,691,200
Purchase of investments	(54,674,332)	(18,601,679)
Net cash (used in) provided by investing activities	(37,230,022)	20,147,836
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(2,388,626)	41,688,608
<b>Cash and Cash Equivalents - Beginning of year</b>	80,215,654	38,527,046
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 77,827,028</b>	<b>\$ 80,215,654</b>

# Board of Water and Light - City of Lansing, Michigan

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2008	2007
<b>Balance Sheet Classifications</b>		
Restricted cash and cash equivalents	\$ 35,100,621	\$ 32,749,480
Cash and cash equivalents	<u>42,726,407</u>	<u>47,466,174</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 77,827,028</u></b>	<b><u>\$ 80,215,654</u></b>

### Reconciliation of Operating Income to Net Cash from Operating Activities:

	Year Ended June 30	
	2008	2007
Operating income	\$ 19,858,461	\$ 23,867,234
Adjustments to reconcile operating income to net cash from operating activities:		
Payment in lieu of taxes (Note 7)	(10,747,503)	(9,910,616)
Depreciation	29,160,354	27,355,440
Sewerage collection fees	936,862	1,113,296
Interest on customer deposits	(154,288)	(126,238)
(Increase) decrease in assets:		
Accounts receivable (Note 1)	(58,573)	3,235,793
Unbilled accounts receivable (Note 1)	(1,459,502)	(977,988)
Inventories	(1,731,406)	(2,320,142)
Customer deposits	195,622	320,782
Other	(3,283,128)	3,335,067
Increase in liabilities:		
Accounts payable and other accrued expenses	5,444,827	4,766,338
Other and deferred costs	<u>777,228</u>	<u>214,852</u>
Total adjustments	<u>19,080,493</u>	<u>27,006,584</u>
Net cash provided by operating activities	<b><u>\$ 38,938,954</u></b>	<b><u>\$ 50,873,818</u></b>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Statement of Net Assets

	June 30	
	2008	2007
<b>Assets</b>		
Receivable - Investment interest receivable	\$ 515,897	\$ 641,934
Investments at fair value:		
Money market collective trust fund	9,115,546	14,170,685
U.S. government obligations	10,637	13,433
Corporate bonds and notes	29,481,866	35,796,119
Mutual funds	244,317,858	264,386,804
Common stocks	541,649	544,369
Preferred stocks	3,052,380	2,996,482
Self-directed brokerage account	721,121	838,601
Participant loans	3,011,828	2,998,049
Total investments	290,252,885	321,744,542
<b>Net Assets</b>	<b>\$ 290,768,782</b>	<b>\$ 322,386,476</b>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Statement of Changes in Net Assets

	Year Ended June 30	
	2008	2007
<b>Increases</b>		
Investment income (loss):		
Net (depreciation) appreciation in fair value of investments	\$ (34,221,080)	\$ 37,172,339
Interest and dividend income	10,912,020	8,251,855
Net investment (loss) income	(23,309,060)	45,424,194
Employer contributions	11,863,745	15,393,274
Participant rollover contributions	319,828	26,599
Total increases - Net of depreciation in fair value of investments	(11,125,487)	60,844,067
<b>Decreases</b>		
Benefits paid to participants	18,349,123	19,443,228
Loan defaults	393,395	91,132
Participants' loan fees	18,165	13,615
Retirees' health premiums and other	1,731,524	5,630,598
Total decreases	20,492,207	25,178,573
<b>Net Change in Assets Held</b>	(31,617,694)	35,665,494
<b>Assets Held in Trust for Pension Benefits</b>		
Beginning of year	322,386,476	286,720,982
End of year	<u>\$ 290,768,782</u>	<u>\$ 322,386,476</u>

# Board of Water and Light - City of Lansing, Michigan

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## Notes to Financial Statements June 30, 2008 and 2007

### Note 1 - Significant Accounting Policies

**Reporting Entity** - The Board of Water and Light (the BWL), a related organization of the City of Lansing, Michigan (the "City"), is an administrative board established by the City Charter. The City Charter grants the BWL full and exclusive management of the water, steam, chilled water, and electric services of the City. The commissioners of the governing board are appointed by the mayor with approval of the City Council. The BWL provides water, steam, chilled water, and electric services to the City and surrounding townships. The governing board (Board of Commissioners) has the exclusive authority to set rates for the services provided. The financial statements include the financial activities of the water, steam, chilled water, and electric operations of the BWL. The financial statements also include the financial activities of the BWL Pension Trust Funds. The BWL is exempt from taxes on income because it is a municipal entity.

**Basis of Accounting** - The BWL utilizes the accrual basis of accounting. In addition, the BWL follows the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which requires that the effects of the ratemaking process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, the BWL records various regulatory assets and liabilities to reflect the regulator's actions (see Note 6). Management believes that the BWL meets the criteria for continued application of SFAS No. 71, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

On July 1, 1994, the BWL adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Under this statement, the BWL elected to follow all SFAS statements issued after November 30, 1989 that do not conflict with GASB statements.

**System of Accounts** - The BWL's accounts are maintained substantially in accordance with the Uniform Systems of Accounts of the Federal Energy Regulatory Commission for its electric and steam systems and in accordance with the Uniform Systems of Accounts of the National Association of Regulatory Utility Commissioners for the water and chilled water systems. The chart of accounts dictates how the BWL classifies revenue and expense items in the statement of revenues, expenses, and changes in net assets as operating and nonoperating.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note I - Significant Accounting Policies (Continued)

**Cash and Cash Equivalents** - The BWL considers demand deposits and current restricted funds, which consist of cash and highly liquid investments with an original maturity of 90 days or less, as cash and cash equivalents for financial statement purposes.

**Investments** - The BWL has established special purpose funds designated to meet anticipated operating requirements. These funds consist principally of commercial paper and United States government securities and are segregated as follows:

	Carrying Value	
	2008	2007
Designated purpose:		
Coal inventory fluctuation	\$ 4,158,466	\$ 3,909,002
Litigation, environmental, and uninsured losses	17,837,835	16,315,060
Future water facilities	3,345,465	3,186,026
Total	<u>\$ 25,341,766</u>	<u>\$ 23,410,088</u>

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. A general valuation allowance is established based on an analysis of the aged receivables and historical loss experience. All amounts deemed to be uncollectible are charged to expense in the period that determination is made. Accounts receivable are not deemed uncollectible until they are approximately 270 days past due and have remained completely unpaid throughout the BWL's collection policy. The components of accounts receivable for 2008 and 2007 are as follows:

	2008	2007
Customer receivables	\$ 13,094,978	\$ 14,394,010
Sewerage collections	1,713,257	1,795,438
Combined sewer overflow - City of Lansing	255,149	(407,802)
MPPA receivable	10,129,574	11,209,259
Miscellaneous	1,028,948	2,292,725
Less allowance for doubtful accounts	<u>(900,000)</u>	<u>(900,000)</u>
Net	<u>\$ 25,321,906</u>	<u>\$ 28,383,630</u>



# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note I - Significant Accounting Policies (Continued)

**Inventories** - Inventories are stated at weighted average cost and consist of the following at June 30:

	2008	2007
Coal	\$ 10,413,212	\$ 9,996,047
Materials and supplies	9,143,131	7,828,890
Total	<u>\$ 19,556,343</u>	<u>\$ 17,824,937</u>

**Utility Plant** - The utility plant is stated on the basis of cost, which includes expenditures for new facilities and those which extend the useful lives of existing facilities and equipment. Expenditures for normal repairs and maintenance are charged to maintenance expense as incurred.

Depreciation of the utility plant is computed using the straight-line method based on estimated useful lives, except for depreciation related to the Central Utilities Complex, which is computed in accordance with SFAS No. 71. The resulting provisions for depreciation in 2008 and 2007, expressed as a percentage of the average depreciable cost of the related assets, are as follows:

	Life (Years)	Average Rate (Percent)	
		2008	2007
Classification of utility plant:			
Water	4-100	2.0	1.9
Electric	4-50	3.3	3.2
Steam	5-50	1.8	1.8
Chilled water	5-50	4.8	4.8
Common facilities	4-50	4.5	4.2
Central Utilities Complex	15	6.2	5.8

When units of property are retired, their costs are removed from the utility plant and charged to accumulated depreciation.

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 1 - Significant Accounting Policies (Continued)**

**Accrued Compensated Absences** - The BWL records a liability for estimated compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the BWL and its employees. This liability is accrued as employees earn the rights to such benefits. The BWL estimates the total current and noncurrent portions of the liability to be \$10,536,588 and \$10,299,527 as of June 30, 2008 and 2007, respectively.

**Capital Contributions** - Capital contributions represent nonrefundable amounts received from customers for construction of a utility plant. Electric, water, steam, and chilled water contributions are credited against the related assets and will offset the depreciation of the related assets over the estimated useful lives. This treatment is consistent with the BWL's ratemaking policy and is thus permitted under SFAS No. 71.

**Net Assets** - Equity is classified as net assets and displayed in three components:

- **Invested in Capital Assets** (net of related debt) - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets
- **Restricted for Debt Service** - Consists of net assets with constraints placed on their use by revenue bond resolution
- **Unrestricted** - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt"

**Unbilled Accounts Receivable and Revenue** - Unbilled accounts receivable at June 30, 2008 and 2007 represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). Accordingly, the current year revenue from customers whose billing period ends after June 30 for services rendered prior to June 30 will be recognized in the current period.

**Interutility Transactions** - The water, electric, steam, and chilled water operations of the BWL bill each other for services provided, and these services are reported as revenue to the generating operation and expense to the consuming operation. Such internal billings aggregated \$5,050,320 and \$4,680,633 in 2008 and 2007, respectively, and are not eliminated in the statement of revenues, expenses, and changes in net assets.

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 1 - Significant Accounting Policies (Continued)**

**Emissions Allowance** - The Environmental Protection Agency has granted emission allowances to the BWL related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The BWL estimates the allowances needed for future years. As appropriate, the BWL may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type are accounted for separately and are not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

The BWL recognized a gain of \$2,757,249 and \$1,232,313 as of June 30, 2008 and 2007, respectively, from the sale of allowances and has recorded an intangible asset of approximately \$2,774,000 and \$574,000 as of June 30, 2008 and 2007, respectively, for purchased allowances related to future periods.

**Significant Customers** - The BWL has one customer which accounts for approximately 8 percent and 7 percent of the BWL's total revenue for the years ended June 30, 2008 and 2007, respectively.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Note 2 - Rate Matters**

Rates charged to customers are established solely by the governing board. The BWL has agreed to charge rates sufficient to meet certain requirements of the bond resolutions for the outstanding revenue bonds.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 3 - Construction in Progress

Construction in progress consists of projects for expansion or additions to the utility plant. The estimated additional cost to complete these projects, based on the BWL's capital budget, approximates \$21,687,000 and \$13,694,000 at June 30, 2008 and 2007, respectively, including commitments on existing construction contracts approximating \$4,504,000 and \$2,403,000 at June 30, 2008 and 2007, respectively. These projects will be funded through operational cash flow, including the project funds reported as other assets.

### Note 4 - Restricted Assets

Restricted assets are required under the 1994B, 1999A, 1999B, 2002A, 2002B, 2003A, 2005A, and 2008A Revenue Bond resolutions and the related Nonarbitrage and Tax Compliance Certificates. These assets, which consist of cash, certificates of deposit, commercial paper, and United States government securities, are segregated into the following funds:

		Carrying Value	
	Required at June 30, 2008	2008	2007
Current:			
Operations and Maintenance Fund	\$ 21,109,100	\$ 62,792,269	\$ 66,092,961
Bond and Interest Redemption Fund	13,991,521	15,034,759	14,122,693
Total current	35,100,621	77,827,028	80,215,654
Noncurrent:			
2001A and 2008A Construction Fund	40,882,698	40,882,698	1,807,814
Bond Reserve Fund	12,894,941	12,661,586	10,386,050
Rebate Fund	136,666	136,666	28,218
Total noncurrent	53,914,305	53,680,950	12,222,082
Total	<u>\$ 89,014,926</u>	<u>\$ 131,507,978</u>	<u>\$ 92,437,736</u>

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 4 - Restricted Assets (Continued)**

The carrying value in excess of the required value is reported as cash and cash equivalents for the year ended June 30, 2008.

The restrictions of the various funds are as follows:

- **Operations and Maintenance Fund** - By the end of each month, this fund shall include sufficient funds to provide for payment of the succeeding month's expenses.
- **Bond and Interest Redemption Fund** - Restricted for payment of the current portion of bond principal and interest and the remaining capitalized interest on the 1994B, 1999A, 1999B, 2002A, 2002B, 2003A, 2005A, and 2008A Revenue Bonds
- **2001A and 2008A Construction Fund** - Restricted for payment of costs of the bonded projects and costs of issuance of the bonds
- **Bond Reserve Fund** - Shall include sufficient funds to cover the maximum annual principal and interest requirements for the outstanding 1994B, 1999A, and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, and 2008A Revenue Bonds. The Nonarbitrage and Tax Compliance Certification stipulates that the amount in the fund shall be valued at amortized cost to meet this requirement.
- **Rebate Fund** - Shall include sufficient funds to enable the BWL to rebate arbitrage investment earnings to the federal government in accordance with Section 148(f)(2) of the Internal Revenue Code (IRC) of 1986, as amended (see Note 12)

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Long-term Debt

Long-term debt as of June 30 consists of the following:

	2008	2007
Water Supply Utility System Revenue Bonds, Series 2008A, due serially through July 1, 2032, plus interest at rates ranging from 3.00% to 5.00%	\$ 40,000,000	\$ -
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2005A, due serially beginning July 1, 2011 and continuing through July 1, 2014, plus interest at rates ranging from 4.00% to 5.00%	12,325,000	12,325,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2003A, due serially through July 1, 2026, plus interest at rates ranging from 2.75% to 5.00%	28,280,000	28,660,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 2002A, due serially through July 1, 2018, plus interest at rates ranging from 3.50% to 5.00%	22,400,000	22,745,000
Water Supply, Steam, and Electric Utility System Revenue Refunding Bonds, Series 2002B, due serially through July 1, 2013, plus interest at rates ranging from 3.00% to 3.75%	13,065,000	14,990,000

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Long-term Debt (Continued)

	2008	2007
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999B, due serially through July 1, 2016, plus interest at rates ranging from 7.30% to 7.70%	\$ 55,109,000	\$ 59,484,000
Water Supply, Steam, and Electric Utility System Revenue Bonds, Series 1999A, due serially through July 1, 2011, plus interest at rates ranging from 4.75% to 5.50%	6,940,000	9,010,000
Water Supply and Electric Utility System Revenue Bonds, Series 1994B, due serially through July 1, 2008, plus interest at rates ranging from 4.60% to 5.00%	971,000	971,000
Promissory note, due to the City of Lansing in semi-annual installments through October 1, 2024, plus interest at 2.50%	7,242,310	4,126,587
Promissory note, due in monthly installments of \$9,492, including interest at 4.344%, with final payment on December 30, 2008	168,567	231,724
Promissory note, due in monthly installments of \$15,833, including interest at 4.889%, with final payment in September 2008	65,077	246,492
Township contract water service obligation with interest due semiannually at 6% and portions of principal due annually, with final payment in May 2015	229,980	254,980

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Long-term Debt (Continued)

	2008	2007
Delta Township Drain Assessment due serially through January 15, 2025, plus interest at 5.25%	\$ 1,446,102	\$ 1,531,167
Total	188,242,036	154,575,950
Less current portion	(10,022,070)	(9,589,954)
Less current portion of premium deferred amount of refunding on bonds	(101,062)	(115,177)
Plus unamortized premium	1,539,701	1,399,212
Deferred loss on refunding of bonds	(1,528,560)	(1,827,902)
Total long-term portion	<u>\$ 178,130,045</u>	<u>\$ 144,442,129</u>

The fair value of the long-term debt based on the quoted market prices for similar issues for debt of the same remaining maturities is estimated to be \$199,503,603 and \$163,767,700 at June 30, 2008 and 2007, respectively.

The unamortized premium and deferral on refunded bonds is being amortized over the life of the bonds, using the effective-interest method.

Aggregate annual principal payments applicable to long-term debt are as follows:

	Principal	Interest	Total
2009	\$ 10,022,070	\$ 9,298,335	\$ 19,320,405
2010	10,617,890	9,320,540	19,938,430
2011	11,218,016	8,699,438	19,917,454
2012	11,829,424	8,046,889	19,876,313
2013	12,490,969	7,341,391	19,832,360
2014-2018	64,726,056	24,726,495	89,452,551
2019-2023	28,250,702	12,098,204	40,348,906
2024-2028	23,866,098	6,345,719	30,211,817
2029-2033	15,220,811	1,943,750	17,164,561
Total	<u>\$ 188,242,036</u>	<u>\$ 87,820,761</u>	<u>\$ 276,062,797</u>



# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 5 - Long-term Debt (Continued)**

Resolutions of the 1994B and 1999A bonds and the uninsured portion of the 2002A, 2002B, 2003A, 2005A, and 2008A bonds require the BWL to establish a reserve account equal to the highest annual principal and interest requirements of such issues. As of June 30, 2008, the balance of this reserve account was \$12,661,586 (see Note 4). In August 2008, the balance was \$12,894,941, which satisfied these requirements. The reserve requirements for the 1999B bonds and a portion of the 2002B bonds are satisfied by the purchase of a debt service reserve fund surety bond.

All Water Supply and Electric Utility System Revenue Bonds were issued by authority of the BWL, except for the Series 1999B Subordinate Lien Revenue Bonds, which were issued on a parity basis and are payable solely from the net revenue of combined water, electric, and steam operations of the BWL.

The BWL has defeased several bond issues in prior years. The proceeds of the new bonds were placed in an escrow deposit fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow deposit fund assets and the liability for the defeased bonds are not included in the financial statements. The outstanding balance of all defeased liabilities is \$32,045,000 and \$33,645,000 at June 30, 2008 and 2007, respectively.

The Series 2008A Bonds maturing in the years 2012 to 2028, inclusive, shall not be subject to optional redemption prior to maturity. The bonds, or portions of bonds in multiples of \$5,000 maturing in the years 2019 to 2032, inclusive, shall be subject to redemption at the option of the Board in such order of maturity as the Board shall determine and within a single maturity by lot on any date on or after July 1, 2018 at par plus accrued interest to the date fixed for redemption.

The BWL may redeem certain outstanding Water Supply and Electric Utility System Revenue Bonds prior to maturity. The Series 2005A Bonds maturing in the years 2011 to 2014, inclusive, shall not be subject to redemption prior to maturity.

The Series 2003A Bonds maturing in the years 2004 to 2013, inclusive, shall not be subject to redemption prior to maturity. Series 2003A Bonds due on or after July 1, 2014 to 2026, inclusive, shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2013, at par plus accrued interest to the date fixed for redemption.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Long-term Debt (Continued)

The Series 2002A Bonds maturing in the years 2003 to 2012, inclusive, and the Series 2002B Bonds shall not be subject to redemption prior to maturity. Series 2002A Bonds due on or after July 1, 2013 shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2012, at par plus accrued interest to the date fixed for redemption.

The Series 1999B Bonds maturing in the years 2002 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999B Bonds due on or after July 1, 2010 shall be subject to redemption prior to maturity, at the option of the BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption. In addition, there was a special optional redemption on January 1, 2003 for all series 1999B Bonds from unexpended series 1999B Bond proceeds on hand as of November 1, 2002, if any, at a price of 101 percent of their par value plus accrued interest, if any, to the date of redemption.

The Series 1999A Bonds maturing in the years 2001 to 2009, inclusive, shall not be subject to redemption prior to maturity. Series 1999A Bonds due on or after July 1, 2010 shall be subject to redemption prior to maturity, at the option of BWL, in such order of maturity as the BWL may determine, and by lot within any maturity, in whole or in part, on any date on or after July 1, 2009, at par plus accrued interest to the date fixed for redemption.

The Series 1994B Bonds are noncallable.

The long-term debt activity for the year ended June 30, 2008 is as follows:

	Revenue Bonds	Other Notes	Total
Beginning balance	\$ 147,641,133	\$ 6,390,950	\$ 154,032,083
Additions	40,341,122	3,299,250	43,640,372
Reductions	(8,981,514)	(538,826)	(9,520,340)
Ending balance	<u>\$ 179,000,741</u>	<u>\$ 9,151,374</u>	<u>\$ 188,152,115</u>
Due within one year	\$ 9,601,000	\$ 421,070	\$ 10,022,070

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 5 - Long-term Debt (Continued)**

The BWL has pledged substantially all revenue, net of operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction of the utility plant. The bonds are payable solely from the net revenues of the BWL. The remaining principal and interest to be paid on the bonds is \$265,408,212. During the current year, net revenues of the BWL were \$51,459,210 compared to the annual debt requirements of \$17,496,608.

### **Note 6 - Deferred Costs/Credits Recoverable in Future Years**

#### **Central Utilities Complex**

The BWL accounts for amortization of its Central Utilities Complex (CUC), which is a separate operating unit of the BWL, under SFAS No. 71. The BWL has recorded deferred amortization of \$4,761,600 and \$4,389,666 at June 30, 2008 and 2007, respectively. Under an agreement with a BWL customer, the bonded debt related to the construction of the CUC will be reimbursed through payments to be received from this customer through 2017. The deferred amortization balance represents the difference between calculated straight-line amortization expense and the reimbursement payments received from the customer at year end.

#### **Environmental Remediation**

During the year ended June 30, 2004, SFAS No. 71 was used in accounting for expenses to be incurred and the estimated liability for environmental remediation of a landfill site operated by the BWL. A regulatory asset of \$4,623,000 was created as a result. During the years ended June 30, 2008 and 2007, \$1,155,600 and \$1,155,600, respectively, was recovered in rates. An increase in the liability was made during the year ended June 30, 2008 of \$5,000,000. The remaining balance of the regulatory asset at June 30, 2008 and 2007 was \$7,311,800 and \$3,467,400, respectively. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis.

During the year ended June 30, 2006, an additional SFAS No. 71 amount was approved by the Board of Commissioners to defer an additional \$8,400,000 for the estimated liability of an environmental remediation for a second landfill. The BWL reviews the adequacy of its rates to recover its cost of service on an annual basis. Recovery of this regulatory asset will begin when there is a defined landfill closure plan approved and in process, and will be included in subsequent rates.

# **Board of Water and Light - City of Lansing, Michigan**

## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 6 - Deferred Costs/Credits Recoverable in Future Years (Continued)**

#### **Deferred Cost Adjustments**

During the year ended June 30, 2005, the Board of Commissioners approved the use of SFAS No. 71 in accounting for the BWL's energy cost adjustment (ECA), power chemical adjustment (PCA), and fuel cost adjustment (FCA). These affect the amount to be billed to retail electricity, water, and steam customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. This resulted in deferred costs of \$(349,108) and \$(1,091,456) at June 30, 2008 and 2007, respectively. This amount represents costs to be (returned to) or recovered from customers in future years because actual costs of providing utilities were (lower) or higher than the costs incorporated into BWL's rates.

#### **GM Steam Termination Fees and Related Impairment**

During the year ended June 30, 2006, the Board of Commissioners approved the use of SFAS No. 71 in accounting to defer certain General Motors Corporation (GM) termination fees and related steam asset impairment. During the year ended June 30, 2008, the BWL entered into a settlement agreement with GM on the fees that were billed due to the termination. The termination fees resulted in a receivable being recorded. The receivable balance is \$12,157,037 and \$16,422,491 at June 30, 2008 and 2007, respectively. The balance of the deferred revenue is \$12,677,037 and \$16,942,491 at June 30, 2008 and 2007, respectively. As a consequence of GM issuing a termination notice and no longer taking steam service at several plants, the BWL has an impaired asset. This impaired asset resulted in a \$12,157,037 reduction to fixed assets. This settles all the amounts owing from GM and will be paid in September 2009. The BWL has decided to defer these fees and related asset impairment until they are included in the steam rates.

### **Note 7 - Transactions with the City of Lansing, Michigan**

**Operations** - The BWL recognized revenue of \$7,448,724 and \$6,821,616 in 2008 and 2007, respectively, for water, electric, and steam services provided to the City. The BWL incurred expenses for sewerage services purchased from the City of \$519,155 and \$475,503 in 2008 and 2007, respectively.

Additionally, the BWL bills and collects sewerage fees for the City. In connection with these services, the BWL received sewerage collection fees of \$936,863 and \$1,113,297 in 2008 and 2007, respectively, included in other income.

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 7 - Transactions with the City of Lansing, Michigan (Continued)**

**Payment in Lieu of Taxes** - Effective July 1, 1992, the BWL entered into an agreement with the City to provide an annual payment of a return on equity in accordance with a formula based on net billed retail sales from its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Effective March 1, 2002 and ending June 30, 2012, the formula to calculate the amount owed to the City for payment in lieu of taxes will also include revenue generated from the BWL's sales for resale on its water, steam heat, and electric utilities for the preceding 12-month period ending May 31 of each year. Subject to the provisions of Act 94 Public Acts of 1933, as amended, and the BWL's various bond covenants, this amount is payable to the City no later than June 30 of each year. Under terms of this agreement, the BWL paid to the City \$10,747,503 in 2008 and \$9,910,616 in 2007 of operational cash flow in excess of debt service requirements.

### **Note 8 - Retirement Plans**

The BWL has three retirement plans. The BWL administers a tax-qualified, single-employer, noncontributory, defined benefit public employee retirement pension plan (the "Defined Benefit Plan"), and the BWL has a tax-qualified, single-employer, noncontributory, defined contribution public employee retirement pension plan (the "Defined Contribution Plan"). The BWL also has a tax-qualified, single-employer, defined benefit plan to administer and fund retiree healthcare benefits ("Retiree Benefit Plan and Trust").

#### **Defined Benefit Plan**

The Defined Benefit Plan was established by the BWL in 1939 under Section 5-203 of the City Charter and has been revised several times, with the latest revision taking effect on November 19, 2002.

The Defined Benefit Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a Defined Contribution Plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in the Defined Benefit Plan were required to make an irrevocable choice to either remain in the Defined Benefit Plan or move to the newly established Defined Contribution Plan. Those participants who elected to move to the Defined Contribution Plan received lump-sum distributions from the Defined Benefit Plan, which were rolled into their accounts in the new Defined Contribution Plan. Of the 760 employees who were required to make this election, 602 elected to convert their retirement benefits to the newly established Defined Contribution Plan.

# Board of Water and Light - City of Lansing, Michigan

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## Notes to Financial Statements June 30, 2008 and 2007

### Note 8 - Retirement Plans (Continued)

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

A participant's interest is fully vested when the participant has been credited with seven years of vesting service. The Defined Benefit Plan provides for an annual benefit upon normal retirement equal to the total number of years of credited service multiplied by 1.8 percent of the highest annual pay during the last 10 years of service, paid in equal monthly installments.

Effective July 1, 1999, the Defined Benefit Plan was amended to include a medical benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries. The funding of the medical benefit component is limited to the amount of excess pension plan assets available for transfer, as determined by the actuary. Medical benefits paid by the Defined Benefit Plan totaled \$1,661,708 and \$5,517,993 for the years ended June 30, 2008 and 2007, respectively.

**Basis of Accounting** - The Defined Benefit Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Benefits are recognized when due and payable in accordance with the terms of the Defined Benefit Plan.

**Investment Valuation and Income Recognition** - The Defined Benefit Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

**Funding Policy and Annual Pension Cost** - The BWL's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the years ended June 30, 2008, 2007, and 2006 were determined using an attained age projected unit credit actuarial funding method. No transition adjustments were required upon implementation of Governmental Accounting Standards Board No. 27, *Accounting for Pensions by State and Local Government Employers*. Overfunded actuarial accrued liabilities were amortized as a level dollar reduction of contributions over a period of 15 years in 2008, 2007, and 2006.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 8 - Retirement Plans (Continued)

**Regulatory Status** - The Defined Benefit Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

The annual pension cost was determined as part of an actuarial valuation of the Defined Benefit Plan as of February 28, 2008, 2007, and 2006. Significant actuarial assumptions used in determining the annual pension cost include (a) rate of return on the investment of present and future assets of 7.5 percent in 2008, 2007, and 2006, compounded annually, (b) projected salary increases ranging from 5.0 to 11.0 percent in 2008, 2007, and 2006, compounded annually, depending on age, attributable to inflation, and (c) the assumption that benefits will not increase after retirement.

Employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the Defined Benefit Plan and consisted of the following:

	2008	2007	2006
Normal cost	\$ 457,679	\$ 558,372	\$ 585,429
Amortization of the overfunded actuarial accrued liability	(4,513,575)	(4,080,878)	(4,461,028)

Based on the overfunded status of the Defined Benefit Plan, no employer contributions are required.

**Three-year Trend Information** - Assets available at market, actuarial accrued liability - projected unit cost method (AAL), unfunded actuarial accrued liability (UAAL), and negative UAAL indicates a funding excess.

#### Schedule of Funding Progress (Unaudited - Required Information)

(Dollar amounts in thousands)

Valuation Date	Actuarial Asset Values	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
February 28, 2006	\$ 125,630	\$ 86,906	\$ (38,724)	145	\$ 3,942	(982.3)
February 28, 2007	126,212	83,382	(42,830)	151	3,391	(1,263.0)
February 28, 2008	113,970	82,423	(31,547)	138	3,162	(997.7)

# Board of Water and Light - City of Lansing, Michigan

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## Notes to Financial Statements June 30, 2008 and 2007

### Note 8 - Retirement Plans (Continued)

AAL - Actuarial Accrued Liability (Projected Unit Credit Accrued Liability)

UAAL - Unfunded Actuarial Accrued Liability, negative UAAL indicates a funding excess

#### **Defined Contribution Plan**

The Defined Contribution Plan was established by the BWL in 1997 under Section 5-203 of the City Charter. The Defined Contribution Plan covers substantially all full-time employees hired after December 31, 1996. In addition, 602 employees hired before January 1, 1997 elected to convert their retirement benefits from the Defined Benefit Plan effective December 1, 1997.

The Plan for Employees' Pensions of the Board of Water and Light - City of Lansing, Michigan - Defined Contribution Plan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

The Defined Contribution Plan operates as a money purchase pension plan and meets the requirements of Sections 401(a) and 501(a) of the IRC of 1986, as amended from time to time.

For employees hired before January 1, 1997, the BWL is required to contribute 15.0 percent of the employees' compensation. For employees hired after January 1, 1997, the BWL is required to contribute 8.1 percent of the employees' compensation. In addition, the BWL is required to contribute 3.0 percent of the employees' compensation for all employees who are not eligible to receive overtime pay and 0.5 percent of the employees' compensation for all nonbargaining employees.

During the years ended June 30, 2008 and 2007, the BWL contributed \$5,128,206 and \$5,028,681, respectively. The BWL's contributions are recognized in the period that the contributions are due.

**Basis of Accounting** - The Defined Contribution Plan's financial statements are prepared using the accrual method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.



# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 8 - Retirement Plans (Continued)**

**Valuation of Investments and Income Recognition** - The Defined Contribution Plan investments are stated at market value based on closing sales prices reported on recognized securities exchanges on the last business day of the year, or for listed securities having no sales reported and for unlisted securities, upon the last reported bid prices on that date. The mutual funds are valued at quoted market prices, which represent the net asset values of shares held by the Defined Contribution Plan at year end.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded on the ex-dividend date.

**Regulatory Status** - The Defined Contribution Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

#### **Retiree Benefit Plan and Trust**

The Retiree Benefit Plan and Trust (the "Plan") is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 686 participants eligible to receive benefits at June 30, 2008 and 661 participants eligible at June 30, 2007.

In October 1999, the BWL formed a Voluntary Employee Benefit Administration (VEBA) trust for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years. During the years ended June 30, 2008 and 2007, the BWL contributed \$6,735,539 and \$10,364,593, respectively, to the VEBA trust. For the year ended June 30, 2008, the total cost of providing such benefits was \$8,226,252, of which \$1,661,708 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by the BWL. For the year ended June 30, 2007, the total cost of providing such benefits was \$7,799,118, of which \$5,517,993 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by the BWL.

The Retiree Benefit Plan and Trust of the Board of Water and Light - City of Lansing, Michigan issues a publicly available financial report. That report may be obtained by writing to the Board of Water and Light, Chief Financial Officer, P.O. Box 13007, Lansing, Michigan 48901-3007.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 8 - Retirement Plans (Continued)

**Basis of Accounting** - The plan statements are prepared using the accrual basis of accounting.

**Investment Valuation and Income Recognition** - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Purchases and sales of investments are recorded on a trade-date basis. Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

**Funding Policy** - The board adopted a process for funding the retiree benefits using both a VEBA trust and, to the extent permitted by law, excess pension assets in the Defined Benefit Pension Plan. Additional contributions to the VEBA trust from BWL operating funds to supplement Section 420 transfers will not exceed the recommended annual contribution amount required to cover current service of active participants and amortize the unfunded accrued liability over 30 years. The required contribution is based on a projected pay-as-you-go financing requirement with an additional amount to prefund benefits.

The board's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Contribution trend information is as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2006	\$ 17,265	\$ 17,265	100%	\$ -
6/30/2007	17,867	18,090	101%	(223)
6/30/2008	14,797	14,797	100%	-

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 8 - Retirement Plans (Continued)

**Funded Status and Funding Progress** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected salary increases ranging from 5.0 percent to 11.0 percent, depending on age, and (c) amortization method level dollar over a 30-year period.

Funding status and funding progress trend information is as follows (dollar amounts in thousands):

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
2/28/2006	\$ 37,664	\$ 216,161	\$ 178,497	17.40%
2/28/2007	52,335	198,005	145,670	26.43%
2/28/2008	57,246	236,102	178,856	24.25%

### Other Postretirement Benefits

The BWL offers its employees a deferred compensation plan, created in accordance with IRC 457, that is administered by a trustee, the ICMA Retirement Corporation. The BWL makes contributions of \$1,000 annually for the employees as of January 1 of each year, during the month of January. The BWL also will match employee contributions after employees contribute \$1,000 at a rate of 75 percent until they reach the maximum of an additional \$500 in contributions.

### Note 9 - Commitments and Contingencies

At June 30, 2008 and 2007, the BWL has unused letters of credit in the amounts of \$1,000,000 and \$817,220 issued to the Michigan Department of Natural Resources. The letters of credit were issued to satisfy requirements of the Michigan Department of Natural Resources to provide financial assurance to the State of Michigan for the cost of closure and postclosure monitoring and maintenance of a landfill site operated by the BWL.

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 9 - Commitments and Contingencies (Continued)**

Through monitoring tests performed on the landfill sites operated by the BWL, it has been discovered that the sites are contaminating the groundwater. The contamination does not pose a significant health risk, but does lower the quality of the groundwater. The BWL is currently in the process of applying for approval from the State of Michigan to remediate the sites. The BWL has estimated the total cost for remediation of the landfills and has recorded the liability of \$14,652,740 and \$12,770,358 for the years ended June 30, 2008 and 2007, respectively. In accordance with SFAS No. 71 (see Note 1), the BWL recorded a corresponding regulatory asset (see Note 6). Certain remediation activities have commenced and are in progress.

The BWL previously announced a program to upgrade existing lead pipes throughout the BWL service area. The program is scheduled to be complete in five years at an estimated remaining cost of \$20,800,000.

The BWL is subject to various laws and regulations with respect to environmental matters such as air and water quality, soil contamination, solid waste disposal, handling of hazardous materials, and other similar matters. Compliance with these various laws and regulations could result in substantial expenditures. The BWL has established a Designated Purpose Fund (see Note 1), of which one of the purposes of the fund is to meet extraordinary expenditures resulting from responsibilities under environmental laws and regulations. Management believes that all known or expected responsibilities to these various laws and regulations by the BWL will be sufficiently covered by the Designated Purpose Fund and the environmental remediation liability.

The BWL is involved in various other legal actions, which have arisen in the normal course of business. Such actions are usually brought for claims in excess of possible settlement or awards, if any, that may result. After taking into consideration legal counsel's evaluation of pending actions, management has recorded an adequate reserve as of June 30, 2008 in regard to specific pending legal cases.

The BWL has entered into contracts to purchase coal totaling approximately \$33,000,000 through December 31, 2009. In addition, the BWL has entered into contracts for the rail services related to shipping the coal. Commitments for future rail services to be purchased are approximately \$77,350,000 through December 2010.

The BWL has entered into agreements for other operating activities totaling \$1,244,780 through December 31, 2010.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 9 - Commitments and Contingencies (Continued)

During the year ended June 30, 2008, the BWL has entered into an agreement with the City of Lansing and Christman Capital Development Company (CCDC) to relocate the chilled water facilities and steam facilities from the site of the BWL's decommissioned Ottawa Plant located on the Grand River. The total costs to relocate the chilled water facilities and steam facilities will be reimbursed to the BWL not to exceed \$20 million dollars. The agreement also allows for the City, through the BWL to sell the Ottawa Plant and the property to CCDC. The entire agreement is contingent on the Accident Fund Insurance Company of America (AFICA) entering into an agreement with CCDC to lease the property.

### Note 10 - Power Supply Purchase

In 1983, the BWL entered into 35-year power supply and project support contracts with the Michigan Public Power Agency (MPPA), of which the BWL is a member. Under the agreement, the BWL has the ability to purchase power from MPPA, will sell power to MPPA at an agreed-upon rate, and will purchase 64.29 percent of the energy generated by MPPA's 37.22 percent ownership in Detroit Edison's Belle River Unit #1 (Belle River), which became operational in August 1984.

Under the terms of its contract, the BWL must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Belle River. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and a 3.0 percent annual inflation of fixed operating costs, which include expected major maintenance projects.

Year	Estimated		
	Debt Service	Fixed Operating	Total Required
2009	\$ 17,677,776	\$ 10,720,744	\$ 28,398,520
2010	17,677,701	11,042,366	28,720,067
2011	17,675,483	11,373,637	29,049,120
2012	17,677,532	11,714,846	29,392,378
2013	17,675,780	12,066,291	29,742,071
2014-2016	53,028,794	38,414,571	91,443,365
Total	<u>\$ 141,413,066</u>	<u>\$ 95,332,455</u>	<u>\$ 236,745,521</u>

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 10 - Power Supply Purchase (Continued)**

In addition to the above required payments, the BWL must pay for fuel, other operating costs, and transmission costs related to any kilowatt hours (KWHs) purchased under these contracts.

The BWL recognized expenses for 2008 and 2007 of \$41,086,762 and \$40,862,526, respectively, to purchase power under the terms of this contract. The price of this power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

In connection with the Belle River purchase, in December 2002, MPPA issued \$280,180,000, principal amount, of its Belle River Project Refunding Revenue Bonds, 2002 Series A, with rates ranging from 2.125 percent to 5.25 percent to advance refund \$330,850,000 outstanding 1993A and B bonds.

During the year ended June 30, 2005, the BWL submitted a five-year termination notice of its participation in the MPPA Power Pool Project, terminating, as of December 31, 2010, the BWL's contractual obligation to buy and sell power within the Pool. The termination notice does not extinguish the BWL's membership in MPPA and causes no change in BWL's contractual obligations to MPPA related to Belle River.

During the year ended June 30, 2007, the BWL entered into a 21-year agreement with Granger Electric Company to purchase power generated from landfill gases. The minimum power to be purchased in the contract is 3.2 megawatts with the option to purchase up to 12 megawatts depending on capacity. The price of the electricity is based on the BWL's cost of electricity generation. The total amount of electricity expected to be purchased from this contract is estimated at \$80,000,000.

### **Note 11 - Cash, Investments, and Fair Value Disclosure**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of an eligible financial institution; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

The operating cash investment policy adopted by the BWL in accordance with Public Act 20, as amended, and the Lansing City Charter has authorized investment in bonds and securities of the United States government, certificates of deposit, time deposits, and bankers' acceptances of qualified financial institutions, commercial paper rated A1 by Standard and Poor's and P1 by Moody's, repurchase agreements using bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, and liquid asset accounts managed by a qualified financial institution using any of these securities. The BWL's deposits and investment policies are in accordance with statutory authority.

The BWL's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Risks at June 30, 2008

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At year end, the BWL had \$2,412,696 of bank deposits that were uninsured and uncollateralized. The BWL believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Cost Basis	How Held
U.S. government or agency bond or notes	\$ 51,435,705	Counterparty

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments other than U.S. Treasuries to a maximum maturity of three years. At year end, the average maturities of investments are as follows:

	Fair Value	Less than 1 Year	1-5 Years	6-10 Years
Pooled investment funds (if not 2a-7)	\$ 61,885,916	\$ 61,885,916	\$ -	\$ -
U.S. government or agency bond or note	52,276,487	15,627,163	29,951,732	6,697,592
Commercial paper	35,271,027	35,271,027	-	-

#### Interest Rate Risk - Pension Trust Funds:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 10,637	13.17
Mutual funds	23,161,954	3.93
Corporate bonds	29,481,866	14.79

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The BWL investment policy further limits its investment in commercial paper to prime quality by both Standard and Poor's and Moody's (A1/P1). As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 61,885,916	AAA	S&P
	4,583,018	Not rated	Not rated
Commercial paper	23,956,410	A1+	S&P
	11,314,617	A1	S&P

**Concentration of Credit Risk** - The BWL's investment policy allows no more than 30 percent of the total portfolio to be invested in obligations of any particular issuer except the U.S. Treasury. As of year end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.



# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

#### Credit Risk - Pension Trust Funds:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$140,991,324	Not Rated	Not Rated
Corporate bonds	6,892,689	A+	S&P
Corporate bonds	8,980,785	A	S&P
Corporate bonds	2,789,575	A-	S&P
Corporate bonds	546,445	AA	S&P
Corporate bonds	2,767,430	AA-	S&P
Corporate bonds	1,313,200	AAA	S&P
Corporate bonds	918,750	BB	S&P
Corporate bonds	1,633,291	BBB+	S&P
Corporate bonds	1,011,571	BBB	S&P
Corporate bonds	2,628,130	BBB-	S&P

**Foreign Currency Risk** - The BWL policy requires that all investments be in U.S. dollars. The BWL holds no investments in foreign entities, currency, or debt.

#### Risks at June 30, 2007

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the BWL's deposits may not be returned to it. The BWL requires that financial institutions must meet minimum criteria to offer adequate safety to the BWL. At June 30, 2007, the BWL had \$7,789,162 of bank deposits that were uninsured and uncollateralized. The BWL believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the BWL evaluates each financial institution with which it deposits funds and only those institutions meeting minimum established criteria are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the BWL will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The BWL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the BWL's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 29,510,495	Counterparty

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The BWL's investment policy restricts investments other than U.S. Treasuries to a maximum maturity of three years. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Less than 1 year	1-5 years	6-10 years
Pooled investment funds (if not 2a-7)	\$ 19,137,116	\$ 19,137,116	\$ -	\$ -
U.S. government or agency bond or note	28,793,721	200,000	16,365,337	12,228,384
Commercial paper	60,575,989	60,575,989	-	-

#### Interest Rate Risk - Pension Trust Funds:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government or agency bond	\$ 13,433	14.17
Mutual funds	18,498,954	4.10
Corporate bonds	35,796,119	15.77

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The BWL investment policy further limits its investment in commercial paper to prime quality by both Standard and Poor's and Moody's (A1/P1). As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment funds	\$ 19,137,116	AAA	S&P
	3,815,887	Not rated	Not rated
Commercial paper	42,401,037	A1 +	S&P
	13,197,463	A1	S&P

# Board of Water and Light - City of Lansing, Michigan

## Notes to Financial Statements June 30, 2008 and 2007

### Note 11 - Cash, Investments, and Fair Value Disclosure (Continued)

#### Credit Risk - Pension Trust Funds:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	\$150,825,404	Not Rated	Not Rated
Corporate bonds	5,850,985	A+	S&P
Corporate bonds	10,363,647	A	S&P
Corporate bonds	3,149,691	A-	S&P
Corporate bonds	2,016,320	AA	S&P
Corporate bonds	4,796,039	AA-	S&P
Corporate bonds	1,303,834	AAA	S&P
Corporate bonds	1,121,875	BB+	S&P
Corporate bonds	1,156,400	BBB+	S&P
Corporate bonds	2,572,478	BBB	S&P
Corporate bonds	3,464,850	BBB-	S&P

**Concentration of Credit Risk** - The BWL's investment policy allows no more than 30 percent of the total portfolio to be invested in obligations of any particular issuer except the U.S. Treasury. As of year end, no more than 5 percent of the BWL's investments are invested in any one commercial paper issue.

**Foreign Currency Risk** - The BWL policy requires that all investments be in U.S. dollars. The BWL holds no investments in foreign entities, currency, or debt.

### Note 12 - Estimated Liability for Excess Earning on Water Supply and Electric Utility System Revenue Bonds

In accordance with Section 148(f)(2) of the IRC of 1986, as amended, the BWL is required on each anniversary date (July 1) of the Water Supply, Electric Utility, and Steam Utility System Revenue Bonds, Series 1994B, Series 1999A, Series 2002A and B, 2003A, 2005A, and 2008A to compute amounts representing the cumulative excess earnings on such bonds. That amount essentially represents a defined portion of any excess of interest earned on funds borrowed over the interest cost of the tax-exempt borrowings. Expense is charged (credited) annually in an amount equal to the estimated increase (decrease) in the cumulative excess earnings for the year. On every fifth anniversary date and upon final maturity of the bonds, the BWL is required to remit to the Internal Revenue Service the amount of any cumulative excess earnings computed on the date of such maturity plus an amount equal to estimated interest earned on previous years' segregated funds.

# **Board of Water and Light - City of Lansing, Michigan**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 12 - Estimated Liability for Excess Earning on Water Supply and Electric Utility System Revenue Bonds (Continued)**

The estimated liability for excess earnings was \$136,666 and \$28,218 at June 30, 2008 and 2007, respectively. In accordance with the requirements of the bond indenture, the BWL is required to set aside any current year additions to this estimated liability in a rebate fund within 60 days of the anniversary date of the bonds.

### **Note 13 - Risk Management and Insurance**

The BWL is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The BWL has purchased commercial insurance for certain general liability, business auto, excess liability, property and boiler and machinery, public officials and employee liability claims, specific excess health insurance claims, and specific excess workers' compensation claims, subject to policy terms, limits, limitations, and deductibles. The BWL is self-insured for most workers' compensation and health insurance claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 14 - Subsequent Event**

Subsequent to June 30, 2008, the Board passed a resolution authorizing the refund of the 1999B Subordinate Lien Revenue Bonds through issuance of up to \$60,000,000 of Subordinate Lien Revenue Refunding Bonds.

## **Additional Information**

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# **Board of Water and Light - City of Lansing, Michigan**

## **Income Available for Revenue Bond Debt Retirement**

	Year Ended June 30	
	2008	2007
<b>Income</b> - Before capital contributions per statement of revenues, expenses, and changes in net assets	\$ 13,742,960	\$ 23,518,403
<b>Additional Income</b>		
Depreciation and impairment	29,160,354	27,355,440
Interest on long-term debt:		
Notes	154,288	126,238
Revenue bonds	8,401,608	8,661,208
Total additional income	37,716,250	36,142,886
<b>Income Available for Revenue Bonds and Interest Redemption</b>	<b>\$ 51,459,210</b>	<b>\$ 59,661,289</b>
<b>Debt Retirement Pertaining to Revenue Bonds</b>		
Principal	\$ 9,095,000	\$ 8,630,000
Interest	8,401,608	8,661,208
Total	<b>\$ 17,496,608</b>	<b>\$ 17,291,208</b>
<b>Percent Coverage of Revenue Bonds and Interest Requirements</b>	<b>294</b>	<b>345</b>

# Board of Water and Light - City of Lansing, Michigan

	Combined		Eliminations	
	2008	2007	2008	2007
<b>Operating Revenues</b>				
Water	\$ 26,730,394	\$ 26,008,356	\$ -	\$ -
Electric:				
Retail	172,103,128	157,943,790	(516,952)	(516,952)
Sales for resale	63,476,738	59,098,338	-	-
Steam	8,696,792	11,056,468	-	-
Chilled water	4,720,885	4,796,149	-	-
Total operating revenues	275,727,937	258,903,101	(516,952)	(516,952)
<b>Operating Expenses</b>				
Production:				
Fuel, purchased power, and other operating expenses	139,215,552	123,289,560	(516,952)	(516,952)
Maintenance	22,969,955	22,361,620	-	-
Transmission and distribution:				
Operating expenses	7,896,861	6,195,761	-	-
Maintenance	8,422,127	7,493,000	-	-
Administrative and general	48,204,627	48,340,486	-	-
Depreciation and impairment	29,160,354	27,355,440	-	-
Total operating expenses	255,869,476	235,035,867	(516,952)	(516,952)
<b>Operating Income (Loss)</b>	19,858,461	23,867,234	-	-
<b>Nonoperating Income (Expenses)</b>				
Investment income	6,160,524	5,310,787	(28,194)	(95,155)
Other income	2,402,122	8,134,821	-	-
System capacity fees	9,325,252	9,278,623	-	-
Bonded debt interest expense	(8,401,608)	(8,661,208)	-	-
Amortization - Central Utilities Complex	(4,700,000)	(4,375,000)	-	-
Payment in lieu of taxes	(10,747,503)	(9,910,616)	-	-
Other interest expense	(154,288)	(126,238)	28,194	95,155
Total nonoperating income (expenses)	(6,115,501)	(348,831)	-	-
<b>Net Income (Loss)</b>	<b>\$ 13,742,960</b>	<b>\$ 23,518,403</b>	<b>\$ -</b>	<b>\$ -</b>

## Detail of Statement of Revenues and Expenses Years Ended June 30, 2008 and 2007

Water		Electric		Steam		Chilled Water	
2008	2007	2008	2007	2008	2007	2008	2007
\$ 26,730,394	\$ 26,008,356	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	172,620,080	158,460,742	-	-	-	-
-	-	63,476,738	59,098,338	-	-	-	-
-	-	-	-	8,696,792	11,056,468	-	-
-	-	-	-	-	-	4,720,885	4,796,149
26,730,394	26,008,356	236,096,818	217,559,080	8,696,792	11,056,468	4,720,885	4,796,149
7,069,029	6,897,206	125,691,762	110,435,873	5,360,474	5,090,510	1,611,239	1,382,923
2,754,810	2,620,167	18,278,542	17,890,502	1,469,964	1,516,143	466,639	334,808
1,452,410	1,225,429	6,256,463	4,788,060	187,988	182,272	-	-
2,009,768	1,755,764	5,947,609	5,339,373	457,171	396,923	7,579	940
8,475,209	8,516,883	37,519,602	37,214,878	1,890,534	2,159,244	319,282	449,481
4,935,125	4,383,680	21,230,552	20,103,134	1,092,190	1,026,793	1,902,487	1,841,833
26,696,351	25,399,129	214,924,530	195,771,820	10,458,321	10,371,885	4,307,226	4,009,985
34,043	609,227	21,172,288	21,787,260	(1,761,529)	684,583	413,659	786,164
1,379,022	929,750	3,740,201	3,661,070	556,124	455,815	513,371	359,307
549,293	1,013,355	2,122,763	7,102,066	(260,318)	13,889	(9,616)	5,511
816,892	812,807	7,797,776	7,758,785	710,584	707,031	-	-
(1,323,920)	(1,050,896)	(4,978,813)	(5,456,550)	(318,230)	(343,496)	(1,780,645)	(1,810,266)
(411,720)	(383,250)	(3,930,140)	(3,658,375)	(358,140)	(333,375)	-	-
(1,041,692)	(1,003,922)	(9,088,265)	(8,454,956)	(426,368)	(261,325)	(191,178)	(190,413)
(39,297)	(35,543)	(114,816)	(86,965)	(28,369)	(98,885)	-	-
(71,422)	282,301	(4,451,294)	865,075	(124,717)	139,654	(1,468,068)	(1,635,861)
<b>\$ (37,379)</b>	<b>\$ 891,528</b>	<b>\$ 16,720,994</b>	<b>\$ 22,652,335</b>	<b>\$ (1,886,246)</b>	<b>\$ 824,237</b>	<b>\$ (1,054,409)</b>	<b>\$ (849,697)</b>



# Board of Water and Light - City of Lansing, Michigan

## Detail of Statement of Changes in Net Assets

	Combined	Water	Electric	Steam	Chilled Water
<b>Net Assets - June 30, 2006</b>	\$ 482,430,608	\$ 94,072,086	\$ 375,360,031	\$ 14,114,274	\$ (1,115,783)
Income (loss) before contributions	<u>23,518,403</u>	<u>891,528</u>	<u>22,652,335</u>	<u>824,237</u>	<u>(849,697)</u>
<b>Net Assets - July 1, 2007</b>	505,949,011	94,963,614	398,012,366	14,938,511	(1,965,480)
Income (loss) before contributions	<u>13,742,961</u>	<u>(37,380)</u>	<u>16,720,995</u>	<u>(1,886,246)</u>	<u>(1,054,408)</u>
<b>Net Assets - June 30, 2008</b>	<u><b>\$ 519,691,972</b></u>	<u><b>\$ 94,926,234</b></u>	<u><b>\$ 414,733,361</b></u>	<u><b>\$ 13,052,265</b></u>	<u><b>\$ (3,019,888)</b></u>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Detail of Statement of Net Assets

June 30, 2008				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Assets</b>				
Receivable - Investment interest receivable \$	-	\$ 398,932	\$ 116,965	\$ 515,897
Investments at fair value:				
Money market collective trust fund	-	1,045,199	8,070,347	9,115,546
U.S. government obligations	-	10,637	-	10,637
Corporate bonds and notes	-	20,599,915	8,881,951	29,481,866
Mutual funds	117,829,370	84,722,671	41,765,817	244,317,858
Common stocks	-	541,649	-	541,649
Preferred stocks	-	-	3,052,380	3,052,380
Self-directed brokerage account	721,121	-	-	721,121
Participant loans	3,011,828	-	-	3,011,828
Total investments	121,562,319	106,920,071	61,770,495	290,252,885
<b>Net Assets</b>	<b><u>\$ 121,562,319</u></b>	<b><u>\$ 107,319,003</u></b>	<b><u>\$ 61,887,460</u></b>	<b><u>\$ 290,768,782</u></b>

June 30, 2007				
	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Assets</b>				
Receivable - Investment interest receivable \$	-	\$ 517,419	\$ 124,515	\$ 641,934
Investments at fair value:				
Money market collective trust fund	-	5,872,486	8,298,199	14,170,685
U.S. government obligations	-	13,433	-	13,433
Corporate bonds and notes	-	25,836,134	9,959,985	35,796,119
Mutual funds	132,326,450	91,408,082	40,652,272	264,386,804
Common stocks	-	544,369	-	544,369
Preferred stocks	-	964,400	2,032,082	2,996,482
Self-directed brokerage account	838,601	-	-	838,601
Participant loans	2,998,049	-	-	2,998,049
Total investments	136,163,100	124,638,904	60,942,538	321,744,542
<b>Net Assets</b>	<b><u>\$ 136,163,100</u></b>	<b><u>\$ 125,156,323</u></b>	<b><u>\$ 61,067,053</u></b>	<b><u>\$ 322,386,476</u></b>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Detail of Statement of Changes in Net Assets Year Ended June 30, 2008

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
Investment income (loss):				
Net depreciation in fair value of investments	\$ (11,764,286)	\$ (14,570,920)	\$ (7,885,874)	\$ (34,221,080)
Interest and dividend income	<u>2,010,014</u>	<u>6,931,264</u>	<u>1,970,742</u>	<u>10,912,020</u>
Net investment loss	(9,754,272)	(7,639,656)	(5,915,132)	(23,309,060)
Employer contributions	5,128,206	-	6,735,539	11,863,745
Participant rollover contributions	<u>319,828</u>	<u>-</u>	<u>-</u>	<u>319,828</u>
Total increases - Net of depreciation in fair value of investments	(4,306,238)	(7,639,656)	820,407	(11,125,487)
<b>Decreases</b>				
Benefits paid to participants	9,813,167	8,535,956	-	18,349,123
Loan defaults	393,395	-	-	393,395
Participants' loan fees	18,165	-	-	18,165
Retirees' health premiums and other	<u>69,816</u>	<u>1,661,708</u>	<u>-</u>	<u>1,731,524</u>
Total decreases	<u>10,294,543</u>	<u>10,197,664</u>	<u>-</u>	<u>20,492,207</u>
<b>Net Change in Assets Held</b>	(14,600,781)	(17,837,320)	820,407	(31,617,694)
<b>Assets Held in Trust for Pension Benefits</b>				
Beginning of year	<u>136,163,100</u>	<u>125,156,323</u>	<u>61,067,053</u>	<u>322,386,476</u>
End of year	<u><b>\$ 121,562,319</b></u>	<u><b>\$ 107,319,003</b></u>	<u><b>\$ 61,887,460</b></u>	<u><b>\$ 290,768,782</b></u>

# Board of Water and Light - City of Lansing, Michigan

## Pension Trust Funds - Detail of Statement of Changes in Net Assets Year Ended June 30, 2007

	Defined Contribution Plan	Defined Benefit Plan	VEBA	Total
<b>Increases</b>				
Investment income:				
Net appreciation in fair value of investments	\$ 17,618,836	\$ 14,330,517	\$ 5,222,986	\$ 37,172,339
Interest and dividend income	<u>1,741,761</u>	<u>4,895,389</u>	<u>1,614,705</u>	<u>8,251,855</u>
Total investment income	19,360,597	19,225,906	6,837,691	45,424,194
Employer contributions	5,028,681	-	10,364,593	15,393,274
Participant rollover contributions	<u>26,599</u>	<u>-</u>	<u>-</u>	<u>26,599</u>
Total increases	24,415,877	19,225,906	17,202,284	60,844,067
<b>Decreases</b>				
Benefits paid to participants	9,772,635	9,670,593	-	19,443,228
Loan defaults	91,132	-	-	91,132
Participants' loan fees	13,615	-	-	13,615
Retirees' health premiums and other	<u>112,605</u>	<u>5,517,993</u>	<u>-</u>	<u>5,630,598</u>
Total decreases	<u>9,989,987</u>	<u>15,188,586</u>	<u>-</u>	<u>25,178,573</u>
<b>Net Change in Assets Held</b>	14,425,890	4,037,320	17,202,284	35,665,494
<b>Assets Held in Trust for Pension Benefits</b>				
Beginning of year	<u>121,737,210</u>	<u>121,119,003</u>	<u>43,864,769</u>	<u>286,720,982</u>
End of year	<u><b>\$ 136,163,100</b></u>	<u><b>\$ 125,156,323</b></u>	<u><b>\$ 61,067,053</b></u>	<u><b>\$ 322,386,476</b></u>